



## *Garden City Co-op, Inc.*

*106 North Sixth Street*

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*Garden City, Kansas 67846*

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# **Garden City Co-op 2013 Annual Report**

2013 was a remarkable year for your Co-op. I am as surprised as anyone to report the second best financial year in the history of the Garden City Co-op. The entire area has been dramatically affected by the drought and intense heat of 2012. Grain volumes suffered significantly as a percentage of our five year average harvest totals:

Corn (2012)	65%
Wheat (2013)	48%
Milo (2012)	23%

Reduced volumes could also affect a farmer's willingness to invest in current and future crops. That reluctance could have negatively impacted fertilizer, chemical and petroleum volumes. It did not, as we are reporting record volumes in fertilizer and chemical and the second biggest year ever in refined fuels.

Each of our departments had record profits. This was made possible by increasing market share and becoming the preferred partner for inputs and grain marketing on your farms. We accomplished this thanks to the dedication and hard work of the most committed employee group in the agricultural community. Your Co-op Board of Directors has invested mightily in capital assets to keep up with your improving efficiency and speed.

I have selected some bullet points to summarize the progress being made at your Co-op over the last 5 years:

- We have invested \$28.5 million in capital assets
- We have increased grain storage capacity by 3.4 million bushels since 2010
- Total equity has increased from \$39.3 million to \$74 million
- Working Capital has increased from \$8.4 million to \$13 million
- Long Term Debt has increased from \$8.7 million to \$19.4 million
- Net Fixed Assets have increased from \$17.7 million to \$33.6 million
- We have returned \$9.736 million in cash patronage which includes \$3.589 million in 2013
- Retired \$2.886 million in equity includes \$1.2 million 2013
- We have not incurred or charged off a bad debt since 2009

The Garden City Co-op is not resting on past achievements. We continue to be bullish on the farm economy of Southwest Kansas. Your Board has approved the investment of another

\$14.13 million including the addition of another 2 million bushels of storage capacity in 2014. New application equipment and other mobile equipment will also support your farms.

The 2013 Annual Meeting will feature a new look to our reporting of the income statement. Financial liquidity and cash flow management are two critical measurements of the strength of a business. This is a high priority for us as we plan aggressive yet thoughtful growth. Liquidity is the primary factor that our lender, CoBank, uses to assess our risk rating. For that reason, we will report our income statement in a method that separates income by current cash earnings after income tax from deferred income we will receive as cash later. We believe this will give a more accurate picture of our liquidity than the old local and total income statement.

We will also be updating the Articles and Bylaws for the first time since 2007. Most of the changes are routine changes to wording to keep our Articles and Bylaws current with the common Kansas Cooperative structure. The new addition will provide flexibility to take advantage of Section 199 of the IRS Code allowing for domestic production activity deductions. These deductions allow the Co-op to build reserves for expansion or strengthening of the Co-op Balance Sheet. The Article and Bylaw changes allow the Board the option to reduce the total allocation of patronage, thereby allowing for an increase in the percentage of cash patronage or equity retirements. The Board will not be required to change anything, but if the changes are passed, they will have more flexibility in maximizing the benefit of ownership to you.

We are excited to celebrate an unexpectedly great year at your annual meeting. The Board and employees hope you will take the opportunity to be involved in your Co-op's annual meeting. The success we enjoy today is in large part explained by the foundation built by former members and directors. We are certainly MOVING FORWARD TOGETHER and we hope you will help us keep the momentum going. Plan to attend and participate to continue in our strong tradition.